January 21, 2021

Unitholders Bulletin
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More than 60% haircut in six shut debt schemes of Franklin Templeton Mutual Fund is black swan event for 3 crore unit holders of entire mutual fund industry

- FTMF's 3 lakh unit holders set to lose minimum Rs 16,000 crores out of Rs 28,000 crore invested
- This will set a bad precedent for the entire mutual fund industry in India and if extrapolated, can justify Rs. 15 lakh crore haircut for 3 crore unit holders
- Black swan event may culminate into an Indian subprime crisis, akin to US subprime crisis of 2008
- FTMF has not disclosed how many out of 3 lakh unit holders voted

Accepting more than 60% haircut of minimum Rs 16,000 crores for the six shut schemes of Franklin Templeton Mutual Fund (FTMF) by the unit holders is a black swan event for over 3 crore unit holders of the mutual fund industry in India.

The unit holders of FTMF are not only set to lose more than 60% of their investments, but this will set a bad precedent for other mutual funds to go for such shenanigans, which can erode the assets under management of the mutual fund industry by Rs. 15 lakh crores out of the total AUM of Rs. 30 lakh crores. This black swan event may culminate into an Indian subprime crisis, akin to the US subprime of 2008, if it is not controlled.

Chennai Financial Markets and Accountability (CFMA) has always stood by the unit holders of the six abruptly shut schemes of FTMF and reiterated that the recovery would not fetch more than Rs. 12,000 crores as against the total receivable of Rs. 28,000 crores, that too over a period of 5 to 7 years. At that time, there will be no Sanjay Sapre, Santosh Kamath or even FTMF in India.

FTMF has been claiming heavily through various media that it has realized more than Rs 13,000 crore in its six shut schemes and its lawyers have also made statements before Hon. Supreme Court that around Rs. 9,000 crores are available for distribution without explaining how and where the remaining Rs. 4,000 crores has vanished.

FTMF has front ended the lie of COVID-19 as an excuse to abruptly shut down the six schemes whereas how come COVID-19 reason has not been the case with any other schemes of FTMF or any other mutual fund.

According to CFMA, the real reason for the winding up and ultimate loss to unit holders is dubious investment decisions made by FTMF and its fund managers in connivance with trustees, AMC, KMP of the company along with the soft glove facilitation by the regulator SEBI. This could be the main reason for FTMF to not make public the forensic audit report despite the Hon. Gujarat High Court order. What is more surprising is the fact that even the market regulator SEBI, which has its fiduciary duty to protect the investors interests, has also objected to provide forensic audit reports to the unit holders before the e-voting of six debt schemes.

It is of serious concern that none of the authorities including SEBI has questioned the lies spread by FTMF and its fraudulent activities for winding up of six debt schemes. On the contrary, SEBI is putting a stamp of approval on these lies.

Mutual fund investments are subject to markets risk but that does not mean market fraud. It is claimed that mutual funds are professionally run by asset management companies and fund managers are duty bound to perform better than the market. For example, if Nifty has risen by 10%, the mutual funds being managed by professional fund managers should give 10++% returns. In case of debt scheme of a mutual fund the benchmark is the 10 year treasury bond. If the 10 year treasury bond's return is 2-3%, unit holders should get returns equal or more than the 10 year treasury bond's return. In case of a fall in equity and bond markets, the mutual fund value should fall less than their respective benchmarks.

On the contrary, FTMF unit holders have forgotten their returns and are now set to lose more than 60% of their principal amount invested. It is not too far to imagine that with so many frauds being reported where ultimately the loss is to the common man.

By the time, the unit holders of FTMF will realize the fraud played on them, there would be no legal recourse left for them. The regulator will escape by blaming the trustees and the trustees will escape by blaming the unit holders citing their consent to vote for the winding up.

As a torch bearer, CFMA believes that this issue will find its place in history, when black swan event may culminate into an Indian subprime crisis, akin to the US subprime crisis of 2008. However, then there will be no recovery, as the regulator and legal process would have already put a stamp of approval and it will set a precedent to 3 crore unit holders across the mutual fund industry in India.

CFMA wishes the mutual fund industry well and hopes that such a day of over 60% loss on principle amount to 3 lakh unit holders of FTMF, does not come to 3 crores unit holders in the mutual fund Industry.

Here are the pointers on how the entire e-voting process for the six shut schemes were conducted in a non-transparent, full of conflicts and unfair manner, which should shake the conscience of unit holders and system, who are eyeing over 60% erosion of their principal amount:

i. The voting was conducted without the full knowledge of the findings in the forensic audit report. Therefore, the decision of unit holders is not informed decision.

ii. The voting itself was not neutral, transparent, and tried to influence unit holders with color marking, contextualized text etc.

iii. SEBI’s announcement of appointing an observer was made after the voting commenced, that too after CFMA moved IA for the Contempt.

iv. Voting was organized during the Christmas holidays and that too over a weekend.

v. Information on how many out of the 3 lakh unit holders voted in the e-voting process was not provided.

vi. Conflict of interest of Karvy, which was used as voting platform, the observer and the regulator.

CFMA, which has been relentlessly fighting for the cause of unit holders without any self-interest, puts across fundamental questions for every unit holder to ponder over -

Q. Is it not the right of unit holders to know the quantum of amount to be received and by when?

Q. Do unit holders have **NO RIGHT** to their own money, once invested with a Mutual Fund?

Q. Whether the AMFI tagline of “Mutual Fund Sahi Hai” correctly portrays the industry?

Q. Whether the SEBI has done anything to protect the interest of Unit holders?

Q. Whether a thinly capitalized Trustee Company with no office and full-time peon, staff, chairman etc. be authorized to decide on unit holders money and that too when they can’t be held accountable or responsible?

Q. Whether the US regulator would have allowed a write-off of unit holders’ money by any non-US entity running a mutual fund in the US?

Q. Whether market risk means and includes market fraud?

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